



# **Legislative Audit Division**

State of Montana

Report to the Legislature

November 2002

## **Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2002**

### **Department of Corrections**

This report contains seven recommendations to the Department of Corrections. Issues in the report include:

- ▶ Controls over cellular phone usage.
- ▶ Accounting for prison ranch housing.
- ▶ Compliance with state law and policy.
- ▶ Internal Service Fund rates commensurate with costs.

Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

02-13

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

### **MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE**

Senator John Cobb  
Senator Jim Elliott  
Senator Dan Harrington  
Senator Ken Miller  
Senator Corey Stapleton  
Senator Jon Tester, Chair

Representative Joe Balyeat  
Representative Dee Brown  
Representative Bill Eggers  
Representative Hal Jacobson  
Representative Jeff Pattison, Vice Chair  
Representative David Wanzonried

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

November 2002

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Corrections for the two fiscal years ended June 30, 2002. This report contains seven recommendations regarding compliance with department policy, accounting for Montana Correctional Enterprise ranch housing, controls over payroll data entry, limits on inmate financial transactions, accounting for cannery operations, and Internal Service Fund rates. The department's written response to audit recommendations is included at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

---

## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2002**

## **Department of Corrections**

Members of the audit staff involved in this audit were Geri Hoffman, Brenda Kedish, Hollie Koehler, Cindy S. Jorgenson, and Amber Long.

## Table of Contents

---

Appointed and Administrative Officials .....	iii
Report Summary .....	S-1
<b>Introduction.....</b>	<b>1</b>
Introduction and Scope .....	1
Background.....	2
Administration and Support Services.....	4
Community Corrections .....	4
Juvenile Corrections .....	4
Secure Facilities.....	4
Montana Correctional Enterprise.....	5
<b>Prior Audit Recommendations.....</b>	<b>7</b>
Prior Audit Recommendations .....	7
<b>Findings and Recommendations .....</b>	<b>9</b>
Lack of Control Over Cellular Telephones .....	9
Montana Correctional Enterprise (MCE) Ranch Housing .....	10
Payroll Errors .....	11
Internal Service Fund Rates Commensurate With Cost.....	12
Contract Procedures .....	13
Limits on Inmate Trust Account Balances .....	14
Cannery Operations .....	16
<b>Independent Auditor's Report &amp; Agency Financial Schedules .....</b>	<b>A-1</b>
Independent Auditor's Report.....	A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2002 .....	A-5
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2001 .....	A-6
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2002.....	A-7
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2001.....	A-8
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2002.....	A-9
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2001.....	A-10
Notes to the Financial Schedules.....	A-11

## Table of Contents

---

Department Response.....	B-1
Department of Corrections .....	B-3

## Appointed and Administrative Officials

---

<b>Director's Office</b>	Bill Slaughter, Director
<b>Centralized Services</b>	Joe Williams, Division Administrator
<b>Adult Community Corrections</b>	Mike Ferriter, Division Administrator
<b>Juvenile Corrections</b>	Steve Gibson, Division Administrator
<b>Secure Custody Facilities</b>	Mike Mahoney, Warden, Montana State Prison Jo Acton, Warden, Montana Women's Prison
<b>Montana Correctional Enterprises</b>	Ross Swanson, Division Administrator

### Board of Pardons

		<u>Term Expires</u>
Patrick T. Fleming	Chair	1/4/03
Roxanna Wilson	Member	1/1/06
Mark Fournier	Member	1/1/05
Michael McKee	Auxiliary Member	1/1/03
Sheryl Hoffarth	Auxiliary Member	1/1/06
Craig Thomas	Executive Secretary	

For additional information concerning the Department of Corrections, contact Sally Hilander, Public Information Officer, at:

PO Box 201301  
Helena MT 59620-1301  
(406) 444-7461  
e-mail: [shilander@state.mt.us](mailto:shilander@state.mt.us)

---

### Department of Corrections

This financial-compliance audit report contains the results of our audit of the Department of Corrections for the two fiscal years ended June 30, 2002. We issued an unqualified opinion on the financial schedules contained in this report for fiscal years 2000-01 and 2001-02. This means the reader can rely on the financial information presented and the supporting detailed information on the state's accounting records.

This report contains seven recommendations. The recommendations relate to compliance with department policy, accounting for ranch housing, inadequate controls over payroll, limits on inmate financial transactions, accounting for cannery operations, and Internal Service Fund rates.

The prior audit report contained ten recommendations. The department implemented seven, did not implement two and partially implemented one.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

#### Recommendation #1

We recommend the department implement adequate controls to ensure department employees are complying with state and department policy related to cellular phone usage..... 10

Department Response: Concur. See page B-3.

#### Recommendation #2

We recommend the department:

- A. Include the fair market value of the employees' housing in their taxable gross income and record the rental income on the accounting system.
- B. Record all hours worked by prison ranch employees on the state's human resource system..... 11

Department Response: Concur. See page B-4.

## Report Summary

---

<u>Recommendation #3</u>	We recommend the department ensure time reporting input agrees to the actual information recorded on the employees' timesheets. ....	12
	<u>Department Response:</u> Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the department's cook/chill facility rates include a depreciation factor to ensure fees are commensurate with costs as required by state law.....	13
	<u>Department Response:</u> Concur. See page B-4.	
<u>Recommendation #5</u>	We recommend the department:  A. Enforce contracting policy to ensure contracts are signed in a timely manner.  B. Ensure the facilities comply with department policies and procedures for contracts exceeding \$5,000. ....	14
	<u>Department Response:</u> Concur. See page B-4.	
<u>Recommendation #6</u>	We recommend the department comply with state law related to excess balances in inmate trust accounts. ....	16
	<u>Department Response:</u> Concur. See page B-5.	
<u>Recommendation #7</u>	We recommend the department work with the Department of Administration to determine the appropriate fund for the cannery operation and move the accounting for the cannery to that fund. ....	16
	<u>Department Response:</u> Partially Concur. See page B-5.	

# Introduction

---

## Introduction and Scope

We performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2002. The objectives of the audit were to:

1. Review the department's control systems and make recommendations for the improvement of management and internal controls of the department.
2. Determine if the department complied with applicable state and federal laws and regulations.
3. Determine the implementation status of recommendations from the prior audit.
4. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the result of operations for the audit period.

This report contains seven recommendations to the department. Areas of concern deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund fees and fund equity balances at the department. We reviewed the Internal Service Fund activity of the prison industries training program and determined the rates are not commensurate with costs for fiscal year 2001 and 2002 as required by law. However, because this program provides training and education for inmates, it does not have to be self-supporting as stated in 53-30-133(1)(a), MCA.

We also reviewed the Montana State Prison cook/chill operations that moved from the General Fund to an Internal Service Fund in fiscal year 2002. We determined the rates are not commensurate with costs. The issue is discussed on page 12 of this report.

# Introduction

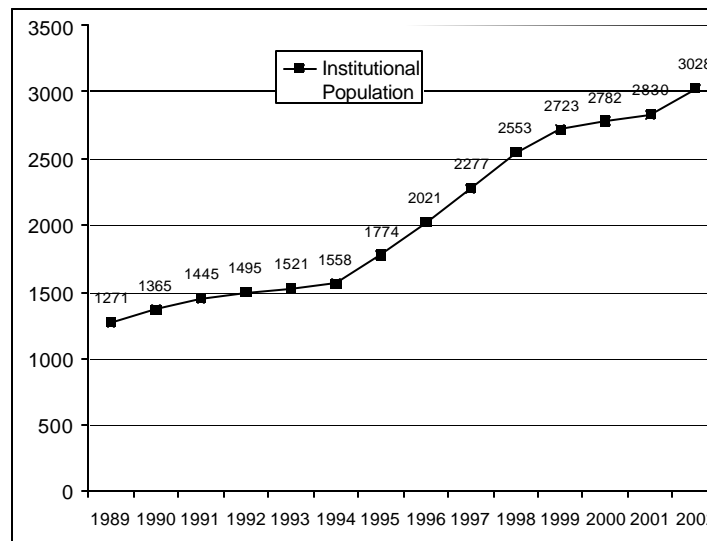
## Background

The Department of Corrections is dedicated to public safety and trust by holding adult and juvenile offenders accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development.

Between 1989 and 2002, Montana's adult average daily inmate population more than doubled, increasing from 1,271 to 3,028 inmates.

**Figure 1**

**Montana's Adult Inmate Population by Fiscal Year**



**Source: Created by Legislative Audit Division from department records.**

As of June 2001, the Department of Corrections projects an adult male population of 3,239 by the end of fiscal year 2003 and a female population of 351.

To respond to the need for increased prison beds, Montana has helped fund three jail/prison facilities located in Cascade, Dawson, and Missoula Counties, and has contracted for inmate beds with a

private prison located in Shelby. Additionally, the department has expanded community-based programs to most of the larger communities in the state.

**Table 1**  
**Average Adult Daily Population by Facility**  
**Fiscal Year 2001 and 2002**

	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>
Montana State Prison – Deer Lodge	1,268	1,319
Dawson County Regional Prison	136	138
Great Falls Regional Prison	126	134
Missoula Regional Prison	150	160
Crossroads Correctional Facility – male inmates – Shelby	384	394
Crossroads Correctional Facility – female inmates – Shelby	61	74
Montana Women’s Prison – Billings	71	74
Male Prerelease – statewide	423	467
Female Prerelease – statewide	111	114
Treasure State Correctional Training Center – Male Trainees – Deer Lodge	42	44
Female Intensive Challenge Program – Billings	0	7
Male WATCH DUI Program – Warm Springs	0	27
Female WATCH DUI Program – Warm Springs	0	2
DOC Commits Housed in Great Falls Regional Prison	5	11
Montana Women’s Prison – County Jail Holding	16	25
Community Corrections Jail Hold	37	38
<b>Total</b>	<b>2830</b>	<b>3028</b>

**Source: Created by the Legislative Audit Division from department records.**

The department currently consists of five programs: Administration and Support Services, Adult Community Corrections, Juvenile Corrections, Secure Custody Facilities, and Montana Correctional Enterprises (MCE). The following paragraphs describe the organization of the department at the end of fiscal year 2002. The full-time equivalent (FTE) numbers listed for each program were obtained from the department in September 2002.

## Introduction

---

---

### Administration and Support Services

The Administration and Support Services program accounts for expenditures for the Director's Office and the Centralized Services Division. The Director's Office provides leadership and management support to all department facilities and divisions. The Director's Office includes Health and Treatment Services, Internal Audit/Quality Assurance, Investigation and Correctional Practices Bureau. Centralized Services provides fiscal, information technologies, statistics, human resources, and legal services. (FTE 83.50)

The Board of Pardons and Parole, which is attached to the department for administrative purposes only, oversees Montana's inmate parole and furlough programs. The board also reviews requests for executive clemency and makes recommendations to the Governor concerning those requests. (FTE 8)

---

### Community Corrections

The Community Corrections program accounts for expenditures for the supervision and alternative activities for adult offenders, including the Interstate Compact Unit, Adult Probation and Parole, Treasure State Correctional Training Center, Felony DUI Facility, and the adult prerelease unit. This division provides supervision for 75 percent of the more than 9,000 adult offenders in the state correctional system. (FTE 206)

---

### Juvenile Corrections

The Juvenile Corrections program accounts for expenditures for the community transition centers, probation and parole, Pine Hills Youth Correctional Facility, Riverside Youth Correctional Facility, financial specialists, and juvenile detention facility licensing. (FTE 205.85)

---

### Secure Facilities

The Secure Facilities program includes expenditures for the Montana State Prison (MSP), Montana Women's Prison (MWP), and contract facilities. These facilities provide for the custody, treatment, training, and rehabilitation of adult male and female criminal offenders. Facility locations include facilities in Missoula, Great Falls, Glendive, Shelby, Billings, and Deer Lodge. (FTE 590.95)

---

### Montana Correctional Enterprise

The Montana Correctional Enterprise (MCE) program accounts for expenditures of the Prison Ranch and Dairy, Vocational/Training, and MCE Industries. The ranch provides dairy products to state institutions and beef cattle, grain, and surplus raw milk to the open market. The Vocational/Training program provides equipment and vehicle repair to state agencies, telemarketing business skills, and vocational education programs. The MCE Industries provides manufactured products (furniture, upholstery, print, signs, license plates, and telemarketing) to state agencies and local governments. A local dealer network is used to sell furniture products manufactured by inmates. (FTE 55)



# Prior Audit Recommendations

---

## **Prior Audit Recommendations**

Our previous audit report of the department, covering the two fiscal years ended June 30, 2000, contained ten recommendations. The department concurred with all ten recommendations contained in the report. Of these recommendations, seven have been implemented, one partially implemented, and two have not been implemented.

The recommendation partially implemented relates to limits on inmate financial transactions and is discussed on page 14. One of the recommendations not implemented relates to contracts not being signed in a timely manner and is discussed on page 13. The second recommendation not implemented relates to federal indirect cost recoveries. The department applied all its federal grant funds to construction costs at secure facilities. At this point the department cannot recover additional federal funds to cover the indirect costs of monitoring. Since the building projects are nearly complete, we make no further recommendation at this time but will look at future federal awards to ensure the department recovers indirect costs as required by state law.



## Findings and Recommendations

---

### **Lack of Control Over Cellular Telephones**

Several department employees are using state issued cellular telephones for personal business. One department employee took the state cell phone on various vacations and incurred approximately \$4,100 of charges over a twelve-month period. Another employee incurred roaming charges of approximately \$560 during one vacation. Other department employees were also using their state issued cell phones for personal business totaling less than \$50 during the same twelve-month period. In June 2002 the department informed us they were working on a separate investigation related to abnormal costs associated with cellular phone usage. Based on a review of cellular phone bills, the department determined a few phones had a significant number of long distance and roaming charges that were not related to department operations.

The department's "Cellular Phone Usage" policy, as well as the state cell phone policy states, "State cellular telephones are provided in order to conduct state business. In addition to state business, state cellular telephones may be used while traveling to contact children, teachers, doctors, daycare centers, babysitters, and for calls to family members to inform them of personal business. These calls must be kept to a minimum and must not interfere with the conduct of state business." Since department staff were not conducting state business while incurring the majority of these roaming charges they are not in compliance with state or department policy.

Department officials said they asked for but did not receive an itemized listing of phone charges by cellular telephone number from its service provider for approximately 12 months. Therefore, they were unable to identify the roaming charges associated with each phone. However, the department did receive summary billing information identifying the phone number, the person assigned the phone and total charges associated with the phone. Department management could have reviewed total cellular phone charges by bureau to determine whether there were any unexpected charges exceeding the base monthly charge. Also, the department could have

## Findings and Recommendations

---

a procedure in place to require each cell phone user to review and approve their own charges.

An itemized list of cellular phone charges was provided to the department in May of 2002. At that time the department requested all employees review the statements and reimburse the department for any personal phone calls. As of September 20, 2002, the department has recovered approximately \$1,300 from department staff for personal calls made on the department's cellular phones. Because of the nature of this matter, one item listed above was referred to the Attorney General's Office and Governor's Office by our office in accordance with section 5-13-304(4), MCA.

### **Recommendation #1**

**We recommend the department implement adequate controls to ensure department employees are complying with state and department policy related to cellular phone usage.**

---

### **Montana Correctional Enterprise (MCE) Ranch Housing**

There are five houses on the MCE ranch property available for employee housing. The department requires employees who reside in a MCE house to work an additional hour and a half per day to receive the housing benefit. This additional hour and a half is not recorded on the state's human resource system. Also, the fair market value of the housing is not included as a fringe benefit in the employee's taxable gross income. The department's procedures for furnishing ranch housing do not comply with federal tax regulations or department time keeping policy.

The exchange of housing for an additional hour and a half of work per day meets the Internal Revenue Service's (IRS) definition of a barter exchange. An IRS publication states "Bartering is an exchange of property or services. You must include in your income, at the time received, the fair market value of property or services you receive in bartering." The department is not reporting the true cost of services received from employees or revenue of prison ranch operations by using this type of barter exchange for ranch housing.

## Findings and Recommendations

---

Department management believes that a different IRS publication covers the housing they are providing. However, this publication states, “You do not include in your income the value of meals and lodging provided to you and your family by your employer at no charge if the following conditions are met:

1. Furnished on the business premises of your employer;
2. Furnished for the convenience of your employer; and
3. A condition of your employment (you must accept it in order to properly perform your duties).”

MCE housing is not provided at "no charge" since the employees are required to work an additional hour and a half per day in exchange for housing.

Department time keeping policy 1.3.40 defines overtime as “all hours worked and all hours required or permitted to be worked by a nonexempt employee which exceed forty hours within the prescribed 168 hours established as the workweek.” The five employees that work the extra hour and one half each day are required to report the extra time, but the department only records overtime on the state’s human resource system for the hours that exceed nine and one half hours each day. When time worked is not reported on the human resource system there is an unrecorded liability at the department.

### **Recommendation #2**

**We recommend the department:**

- A. Include the fair market value of the employees’ housing in their taxable gross income and record the rental income on the accounting system.**
- B. Record all hours worked by prison ranch employees on the state’s human resource system.**

---

## Payroll Errors

We reviewed a total of 42 department personnel timesheets and identified six data entry errors recorded on the state’s human

## Findings and Recommendations

---

resource system. Three errors related to time classification. The employees had earned time through On-Call/Duty Officer Status; however, time was coded as Compensatory Time Earned. The employees were properly paid but the type of pay was misclassified.

The other three errors were reported as follows on the state's human resource system:

- ▶ An employee reported 70 hours of regular time on a timesheet and department personnel paid the employee for 80 hours of regular time. The employee was overpaid for 10 hours.
- ▶ An employee reported eight and one half hours of compensatory time earned and department personnel did not record compensatory time. This employee's compensatory time balance was understated.
- ▶ An employee reported 26.5 hours of vacation time and department personnel recorded the 26.5 hours as regular time. This error caused the employee's vacation balance to be overstated by 26.5 hours.

The department has controls in place that should have identified the above errors. However, the control procedures did not work as designed. Department personnel have since corrected the state's human resource system to reflect actual hours as recorded on the employees' timesheets.

### **Recommendation #3**

**We recommend the department ensure time reporting input agrees to the actual information recorded on the employees' timesheets.**

---

### **Internal Service Fund Rates Commensurate With Cost**

The staff of the cook/chill facility at the Montana State Prison (MSP) prepares and delivers bulk food meal items to the Montana State Hospital, Treasure State Correctional Training Center, and the MSP. They also prepare and deliver complete meals in trays for the MSP - maximum security section, Riverside, Helena Pre-Release and the WATCH Treatment Center.

## Findings and Recommendations

---

Starting in fiscal year 2002 the cook/chill activity was reported in an Internal Service Fund (ISF) on the state's accounting system. As required by section 17-8-101(6), MCA, we reviewed the fees and fund equity balance for this fund. Based on this review the cook/chill rates are not commensurate with costs. The department did not include a depreciation factor for facilities and equipment in the cook/chill rate. Fiscal year 2002 depreciation expense was \$172,434.

The original ISF rates were established by the department and adopted by the 2001 Legislative Session when the cook/chill facility had only been in operation for about six months. Upon further review of the rate structure, department staff noted the following problems:

- ▶ The ISF rates were only for meals on trays and not all the customers were to be sold meals on trays. Therefore, the department had to establish bulk pricing for bags and pans of food that would be used as a part of many meals.
- ▶ Some of the initial data the department used to set rates was misstated. Information related to the number of meals served and the costs associated with those meals were conflicting.
- ▶ Based on original rate projections, the customers appropriations would be short approximately \$900,000 and no additional funding was available.

Since the customers would not have the appropriation to pay for all the meals the department decided to lower the meal rates by excluding a depreciation factor.

### **Recommendation #4**

**We recommend the department's cook/chill facility rates include a depreciation factor to ensure fees are commensurate with costs as required by state law.**

## Findings and Recommendations

---

procedures which ensure contracts are signed in a timely manner. The department concurred with the recommendation.

During our current audit, we determined the department has not implemented the prior recommendation. We reviewed 14 contracts and found only 5 were signed prior to the contract effective date. Of the 14 contracts, 3 were signed within 20 days following the effective date, 4 were signed two months late, 1 was signed five months late, and 1 was signed 10 months after the effective date. As noted in our prior audit, without signed contracts, there is no documented understanding of each party's rights and responsibilities for the work to be performed. The department may have increased liability if it does not have signed contracts describing the responsibilities of contractors and the department.

We also reviewed all eight of the department contracts over \$5,000 at one facility. Six contracts were not bid and coordinated through the central office as required by the department's contract policy. The department Purchasing Manual requires a contract with a total price greater than \$5,000 to be bid and coordinated through the central office. The six contracts exceeding the \$5,000 threshold ranged in price from \$7,680 to \$32,258 and totaled \$83,458.

### **Recommendation #5**

**We recommend the department:**

- A. Enforce contracting policy to ensure contracts are signed in a timely manner.**
- B. Ensure the facilities comply with department policies and procedures for contracts exceeding \$5,000.**

---

### **Limits on Inmate Trust Account Balances**

In our prior audit, we recommended the department develop and implement policies to limit inmate trust account balances as required by state law. The department concurred with the recommendation and was going to have a committee review these issues and provide a draft policy to the director by December 31, 2000. The department

## Findings and Recommendations

---

drafted a policy, but after review by department management they decided to seek legislation to amend the law.

We reviewed inmate accounts at the Montana State Prison (MSP) and Montana Women's Prison (MWP) and determined the department is not in compliance with section 53-1-107, MCA. The law states: "If an inmate accumulates a balance in excess of \$200 in the inmate's prison inmate trust account, the excess must, consistent with department rules, be forfeited for the payment of restitution or costs of incarceration."

We noted 10 of 99 inmate accounts at the MWP had balances in excess of \$200 as of June 7, 2002. The total excess in these accounts was \$4,519. We also noted 148 of 1,917 inmate accounts at the MSP had balances in excess of \$200 as of June 11, 2002. The total excess in these accounts was \$41,803.

Department management said they are seeking legislation to amend the current state law related to inmate trust account limits and have drafted policies inline with the legislation they are seeking. They said this issue is quite complex since the priority of deductions for court ordered child support, restitution, legal fees and other items need to be addressed in the law. There are also complexities with the determination of restitution deduction rates and incarceration rates (room, board, and medical costs). The draft legislation removes the \$200 limit and replaces it with a priority order and percentage of items to be withheld when the inmate receives funds. Until new legislation is adopted, the department is still not in compliance with the state law related to inmate trust account limits and has not adopted rules as required by state law. If new legislation is passed, the department should ensure they comply with the new law and adopt rules consistent with the new legislation.

### **Recommendation #6**

**We recommend the department comply with state law related to excess balances in inmate trust accounts.**

## Findings and Recommendations

---

### **Cannery Operation**

The cannery operation is a food processing facility located at the Montana State Prison. The food processed is used by the Montana Food Bank Network (MFBN) to feed needy families in Montana.

The cannery operation is funded by the Department of Corrections, the Department of Public Health and Human Services, and the MFBN. The cannery activity is reported on the state's accounting system in an Enterprise Fund. However, there is no fee charged by the cannery for the canned product, the cannery does not receive any revenue outside of state government, is not self-supporting and is not a business-type activity. Product, cans, and labels are all provided by the Montana Food Bank. The product is canned at the cannery and then returned to the Food Bank. The Food Bank distributes the product to the public.

The cannery operation does not meet the definition of an Enterprise Fund as described in section 17-2-102, MCA. An Enterprise Fund, as defined, accounts for operations that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges. The cannery operation does not recover costs through user charges.

#### **Recommendation #7**

**We recommend the department work with the Department of Administration to determine the appropriate fund for the cannery operation and move the accounting for the cannery to that fund.**

# **Independent Auditor's Report & Agency Financial Schedules**

---



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Corrections for each of the fiscal years ended June 30, 2001 and 2002. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Corrections for each of the fiscal years ended June 30, 2001 and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

August 26, 2002

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2001	\$ (3,723,973)	\$ 846,793	\$ 9,621,898	\$ 112,978	\$ 0
PROPERTY HELD IN TRUST: July 1, 2001					\$ 389,773
ADDITIONS					
Budgeted Revenues & Transfers-In		8,361,442	5,160,797	6,205,793	
NonBudgeted Revenues & Transfers-In	68,933	681	64,362	56,753	
Prior Year Revenues & Transfers-In Adjustments	13,293	(13,902)			
Direct Entries to Fund Balance	96,016,186	(4,749,946)	4,918,429		
Additions to Property Held in Trust					2,782,587
Total Additions	96,098,412	3,598,275	10,143,588	6,262,546	2,782,587
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	97,483,202	3,788,929	5,424,867	2,337,256	
NonBudgeted Expenditures & Transfers-Out	380,300	(29,844)	(341,926)	164,736	
Prior Year Expenditures & Transfers-Out Adjustments	91,917	(7,797)	8,280	(187)	
Reductions in Property Held in Trust					2,779,848
Total Reductions	97,955,419	3,751,288	5,091,221	2,501,805	2,779,848
FUND BALANCE: June 30, 2002	\$ (5,580,980)	\$ 693,780	\$ 14,674,265	\$ 3,873,719	\$ 0
PROPERTY HELD IN TRUST: June 30, 2002					\$ 392,512

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A - 11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	General Fixed Assets Group
FUND BALANCE: July 1, 2000	\$ (3,566,435)	\$ 214,562	\$ 448	\$ 9,295,971	\$ 96,196	\$ 0	\$ (28,280)
PROPERTY HELD IN TRUST: July 1, 2000						\$ 354,674	
ADDITIONS							
Budgeted Revenues & Transfers-In		5,698,928		4,965,909	338,266		
NonBudgeted Revenues & Transfers-In	184,266	445		21,626	3,902		
Prior Year Revenues & Transfers-In Adjustments	34,502	30,154		4,883			
Direct Entries to Fund Balance	94,867,922	(2,166,133)		(185,899)	54,265		28,280
Additions To Property Held in Trust						9,158,699	
Total Additions	95,086,690	3,563,394		4,806,519	396,433	9,158,699	28,280
REDUCTIONS							
Budgeted Expenditure & Transfers-Out	95,287,917	2,913,146		4,705,861	354,297		
NonBudgeted Expenditure & Transfers-Out			448	(223,378)	25,094		
Prior Year Expenditure & Transfers-Out Adjustments	(43,689)	18,017		(1,891)	260		
Reductions in Property Held in Trust						9,123,600	
Total Reductions	95,244,228	2,931,163	448	4,480,592	379,651	9,123,600	
FUND BALANCE: June 30, 2001	\$ (3,723,973)	\$ 846,793	\$ 0	\$ 9,621,898	\$ 112,978	\$ 0	\$ 0
PROPERTY HELD IN TRUST: June 30, 2001						\$ 389,773	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A - 11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>					
Taxes	\$ 2,734	\$ 681			\$ 3,415
Charges for Services		761,635	\$ 756,919		1,518,554
Capital Contributions				\$ 3,806,076	3,806,076
Sale of Documents, Merchandise and Property	1,134	1,016,532	4,465,895	2,408,962	7,892,523
Contributions and Premiums	(12,144)				(12,144)
Miscellaneous	88,333				88,333
Other Financing Sources		350,790	2,345	47,508	400,643
Federal	2,169	6,218,583			6,220,752
Total Revenues & Transfers-In	82,226	8,348,221	5,225,159	6,262,546	19,918,152
Less: Nonbudgeted Revenues & Transfers-In	68,933	681	64,362	56,753	190,729
Prior Year Revenues & Transfers-In Adjustments	13,293	(13,902)			(609)
Actual Budgeted Revenues & Transfers-In	0	8,361,442	5,160,797	6,205,793	19,728,032
Estimated Revenues & Transfers-In	0	8,324,830	6,065,136	15,730,000	30,119,966
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 36,612	\$ (904,339)	\$ (9,524,207)	\$ (10,391,934)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>					
Charges for Services		\$ (25,635)	\$ 756,919		\$ 731,284
Fines and Forfeits				\$ (8,193,924)	(8,193,924)
Sale of Documents, Merchandise and Property			(1,661,258)	(1,330,283)	(2,991,541)
Miscellaneous		(3,500)			(3,500)
Other Financing Sources		65,747			65,747
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 36,612	\$ (904,339)	\$ (9,524,207)	\$ (10,391,934)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A - 11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	\$ 2,582	\$ 445			\$ 3,027
Charges for Services	47,596	636,117	\$ 743,818		1,427,531
Sale of Documents, Merchandise and Property	6,646	905,608	4,248,600	\$ 342,168	5,503,022
Miscellaneous	161,944				161,944
Other Financing Sources		385,512			385,512
Federal		3,801,845			3,801,845
Total Revenues & Transfers-In	<u>218,768</u>	<u>5,729,527</u>	<u>4,992,418</u>	<u>342,168</u>	<u>11,282,881</u>
Less: Nonbudgeted Revenues & Transfers-In	184,266	445	21,626	3,902	210,239
Prior Year Revenues & Transfers-In Adjustments	<u>34,502</u>	<u>30,154</u>	<u>4,883</u>		<u>69,539</u>
Actual Budgeted Revenues & Transfers-In	0	5,698,928	4,965,909	338,266	11,003,103
Estimated Revenues & Transfers-In	0	5,719,198	5,199,154	340,560	11,258,912
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (20,270)</u>	<u>\$ (233,245)</u>	<u>\$ (2,294)</u>	<u>\$ (255,809)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services		\$ (14,515)	\$ (6,182)		(20,697)
Sale of Documents, Merchandise and Property		(1)	(227,063)	\$ (2,294)	(229,358)
Federal	\$	(5,754)			(5,754)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (20,270)</u>	<u>\$ (233,245)</u>	<u>\$ (2,294)</u>	<u>\$ (255,809)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A - 11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	ADMIN AND SUPPORT SERVICES	COMMUNITY CORRECTIONS	JUVENILE CORRECTIONS	MONT CORRECTIONAL ENTERPRISES	SECURE FACILITIES	Total
Personal Services						
Salaries	\$ 3,134,341	\$ 6,529,682	\$ 6,135,452	\$ 1,862,284	\$ 17,861,980	\$ 35,523,739
Hourly Wages			18,253	685,383	316,151	1,019,787
Other Compensation	15,222					15,222
Employee Benefits	808,685	2,007,420	1,860,680	533,250	5,133,283	10,343,318
Personal Services-Other	2,040			25,031	42,187	69,258
Total	<u>3,960,288</u>	<u>8,537,102</u>	<u>8,014,385</u>	<u>3,105,948</u>	<u>23,353,601</u>	<u>46,971,324</u>
Operating Expenses						
Other Services	4,256,418	10,908,388	704,990	157,099	22,156,536	38,183,431
Supplies & Materials	469,663	532,357	694,420	1,605,103	4,388,632	7,690,175
Communications	95,371	220,372	62,795	13,858	146,365	538,761
Travel	82,810	66,921	49,734	15,733	77,789	292,987
Rent	240,876	1,197,388	95,829	128,234	63,091	1,725,418
Utilities		67,294	298,143	184,146	692,706	1,242,289
Repair & Maintenance	54,648	67,210	45,610	248,995	373,205	789,668
Other Expenses	487,775	33,265	51,089	223,624	574,622	1,370,375
Goods Purchased For Resale			6,236	789,524	982,093	1,777,853
Total	<u>5,687,561</u>	<u>13,093,195</u>	<u>2,008,846</u>	<u>3,366,316</u>	<u>29,455,039</u>	<u>53,610,957</u>
Equipment & Intangible Assets						
Equipment	2	24,243	77,923	(2)	292,757	394,923
Total	<u>2</u>	<u>24,243</u>	<u>77,923</u>	<u>(2)</u>	<u>292,757</u>	<u>394,923</u>
Capital Outlay						
Land & Interest In Land				(64,713)	50	(64,663)
Buildings				85,001		85,001
Other Improvements				(20,288)		(20,288)
Total				<u>0</u>	<u>50</u>	<u>50</u>
Benefits & Claims						
From State Sources		(23,915)	8,003,744			7,979,829
From Federal Sources		(2,593)	70,439			67,846
Total		<u>(26,508)</u>	<u>8,074,183</u>			<u>8,047,675</u>
Transfers						
Accounting Entity Transfers				2,345	47,508	49,853
Total				<u>2,345</u>	<u>47,508</u>	<u>49,853</u>
Debt Service						
Bonds					107,411	107,411
Leases	27,542	27,713	9,700		52,585	117,540
Total	<u>27,542</u>	<u>27,713</u>	<u>9,700</u>		<u>159,996</u>	<u>224,951</u>
Total Expenditures & Transfers-Out	<u>\$ 9,675,393</u>	<u>\$ 21,655,745</u>	<u>\$ 18,185,037</u>	<u>\$ 6,474,607</u>	<u>\$ 53,308,951</u>	<u>\$ 109,299,733</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 9,291,607	\$ 20,964,623	\$ 16,468,425	\$ 1,274,112	\$ 49,956,652	\$ 97,955,419
Special Revenue Fund	137,055	691,122	1,716,612		1,206,499	3,751,288
Enterprise Fund	239,503			4,851,718		5,091,221
Internal Service Fund	7,228			348,777	2,145,800	2,501,805
Total Expenditures & Transfers-Out	<u>9,675,393</u>	<u>21,655,745</u>	<u>18,185,037</u>	<u>6,474,607</u>	<u>53,308,951</u>	<u>109,299,733</u>
Less: Nonbudgeted Expenditures & Transfers-Out	191,354	18,050		(514,677)	478,540	173,267
Prior Year Expenditures & Transfers-Out Adjustments	59,937	12,811		9,500	9,965	92,213
Actual Budgeted Expenditures & Transfers-Out	<u>9,424,102</u>	<u>21,624,884</u>	<u>18,185,037</u>	<u>6,979,784</u>	<u>52,820,446</u>	<u>109,034,253</u>
Budget Authority	9,645,627	21,941,314	18,625,728	8,400,100	53,287,367	111,900,136
Unspent Budget Authority	<u>\$ 221,525</u>	<u>\$ 316,430</u>	<u>\$ 440,691</u>	<u>\$ 1,420,316</u>	<u>\$ 466,921</u>	<u>\$ 2,865,883</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 217,370	\$ 242,562	\$ 171,045	\$ 356,428	\$ 218,784	\$ 1,206,189
Special Revenue Fund	4,115	73,868	269,646		17,948	365,577
Enterprise Fund	34			895,805		895,839
Internal Service Fund	6			168,083	230,189	398,278
Unspent Budget Authority	<u>\$ 221,525</u>	<u>\$ 316,430</u>	<u>\$ 440,691</u>	<u>\$ 1,420,316</u>	<u>\$ 466,921</u>	<u>\$ 2,865,883</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A - 11.

DEPARTMENT OF CORRECTIONS  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	PROGRAM (SUBCLASS) NOT SPECIFIED	ADMIN AND SUPPORT SERVICES	COMMUNITY CORRECTIONS	MONT CORRECTIONAL ENTERPRISES	SECURE FACILITIES	Total
Personal Services						
Salaries		\$ 5,649,898	\$ 8,062,243	\$ 1,754,496	\$ 18,733,926	\$ 34,200,563
Hourly Wages		33,319		668,454	320,909	1,022,682
Other Compensation		14,850			277	15,127
Employee Benefits		1,472,126	2,492,622	496,517	5,520,057	9,981,322
Personal Services-Other	\$ 22,747					22,747
Total	22,747	7,170,193	10,554,865	2,919,467	24,575,169	45,242,441
Operating Expenses						
Other Services		5,140,653	12,497,738	65,372	18,139,497	35,843,260
Supplies & Materials		1,178,459	398,342	2,034,885	3,343,834	6,955,520
Communications		163,804	253,461	18,724	172,603	608,592
Travel		122,459	86,434	17,829	122,554	349,276
Rent		283,235	1,108,539	19,091	114,049	1,524,914
Utilities		6,386	94,209	182,429	1,014,759	1,297,783
Repair & Maintenance		164,252	90,634	303,868	585,789	1,144,543
Other Expenses	216,331	353,184	47,353	32,967	152,785	802,620
Goods Purchased For Resale				642,214	847,319	1,489,533
Total	216,331	7,412,432	14,576,710	3,317,379	24,493,189	50,016,041
Equipment & Intangible Assets						
Equipment	(103,905)	17,430	2,323	117,005	380,099	412,952
Intangible Assets					8,385	8,385
Total	(103,905)	17,430	2,323	117,005	388,484	421,337
Capital Outlay						
Buildings	(43,997)					(43,997)
Other Improvements	(14,912)			58,910		43,998
Total	(58,909)			58,910		1
Grants						
From State Sources					5,318	5,318
Total					5,318	5,318
Benefits & Claims						
From State Sources			6,934,432		(2,729)	6,931,703
From Federal Sources			169,256		67,033	236,289
Total			7,103,688		64,304	7,167,992
Transfers						
Accounting Entity Transfers		448				448
Total		448				448
Debt Service						
Bonds					75,337	75,337
Leases		11,181	55,694		40,292	107,167
Total		11,181	55,694		115,629	182,504
Total Expenditures & Transfers-Out	\$ 76,264	\$ 14,611,684	\$ 32,293,280	\$ 6,412,761	\$ 49,642,093	\$ 103,036,082
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund		\$ 14,556,062	\$ 31,352,205	\$ 1,681,404	\$ 47,654,557	\$ 95,244,228
Special Revenue Fund		2,552	941,075		1,987,536	2,931,163
Capital Projects Fund		448				448
Enterprise Fund	\$ 74,173	48,714		4,357,705		4,480,592
Internal Service Fund	2,091	3,908		373,652		379,651
Total Expenditures & Transfers-Out	76,264	14,611,684	32,293,280	6,412,761	49,642,093	103,036,082
Less: Nonbudgeted Expenditures & Transfers-Out	76,264	448		(274,548)		(197,836)
Prior Year Expenditures & Transfers-Out Adjustments		124,273	(173,655)	(3,907)	25,985	(27,304)
Actual Budgeted Expenditures & Transfers-Out	0	14,486,963	32,466,935	6,691,216	49,616,108	103,261,222
Budget Authority	0	14,667,496	32,914,200	7,935,722	50,082,590	105,600,008
Unspent Budget Authority	\$ 0	\$ 180,533	\$ 447,265	\$ 1,244,506	\$ 466,482	\$ 2,338,786
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund		\$ 168,013	\$ 397,109	\$ 129,563	\$ 366,328	\$ 1,061,013
Special Revenue Fund		11,673	50,156		100,154	161,983
Capital Projects Fund		847				847
Enterprise Fund				1,054,985		1,054,985
Internal Service Fund				59,958		59,958
Unspent Budget Authority	\$ 0	\$ 180,533	\$ 447,265	\$ 1,244,506	\$ 466,482	\$ 2,338,786

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A - 11.

# Department of Corrections

## Notes to the Financial Schedules for the Two Fiscal Years Ended June 30, 2002

---

### 1. --- **Summary of Significant Accounting Policies**

#### --- **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, Special Revenue, and Capital Projects). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary (Enterprise, Internal Service) and Fiduciary (Agency) Fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

#### --- **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

## Notes to the Financial Schedules

---

The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to generally accepted accounting principles by Governmental Accounting Standards Board Statement 34. These changes were effective July 1, 2001. Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

### **Governmental Funds Category**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund. The majority of the department's activity is recorded in this fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal assistance, supervision fees and canteen activity.

**Capital Projects Fund** - to account for resources used for purchase or construction of major capital facilities. In fiscal year 2001 the department used this fund to account for information technology bonds.

### **Proprietary Funds Category**

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include the Montana State Prison Industries Training Program. Also in fiscal year 2002 the department's cook/chill operations were moved from the General Fund to the Internal Service Fund.

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the ranch and industries programs at the Montana State Prison and the industries program at the Montana Women's Prison.

### **Fiduciary Funds Category**

**Agency Fund** - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include moneys belonging to inmates of facilities.

---

### **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2001 and June 30, 2002.

---

### **3. Expenditure Program (Sub-class)**

As part of the implementation of a new accounting system in fiscal year 1999-00, state officials determined that a sub-class designation would identify the program to which an expenditure should be charged. State officials did not require non-budgeted expenditure transactions to be identified to a sub-class. The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code non-budgeted accounts with a subclass code identifying the expenditure program in which the activity occurred until September 2000. This new edit requires that all expenditure transactions entered through the general ledger include a sub-class value. This non-budgeted activity is included in the column titled Program (Sub-Class) Not Specified on the Schedules of Total Expenditures & Transfers-Out.

---

### **4. Direct Entries to Fund Balance**

Direct entries to fund balance in the General, Special Revenue, Internal Service, and Enterprise fund types include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

The \$4.9 million in the Enterprise Fund was moving prior year assets this fiscal year from the General Fixed Asset Account Group to the

## Notes to the Financial Schedules

---

Industries Enterprise Fund because of changes in accounting principles.

---

### 5. **Agency Fund Additions and Deletions**

In fiscal year 2001 the department moved some of the accounting functions from the MSP to the central office in Helena. Upon detailed review of the Agency Fund activity, department staff made several correcting entries to the Agency Fund that increased additions and deletions by approximately \$7 million on the Schedule of Changes in Fund Balance & Property Held in Trust for fiscal year 2001.

## **Department Response**

---



# DEPARTMENT OF CORRECTIONS



JUDY MARTZ, GOVERNOR

1539 11<sup>TH</sup> AVENUE

STATE OF MONTANA

(406) 444-3930  
FAX (406) 444-4920

PO BOX 201301  
HELENA, MONTANA 59620-1301

October 29, 2002

Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
Room 135, State Capitol  
PO Box 201705  
Helena MT 59620-1705

Re: Response to Legislative Audit Recommendations

Dear Mr. Seacat:

Thank you for the opportunity to respond to the financial-compliance audit report of the Department of Corrections. We have reviewed the recommendations, and the department concurs with the findings of the audit report. Our responses to each recommendation follow:

RECOMMENDATION # 1:

WE RECOMMEND THE DEPARTMENT IMPLEMENT ADEQUATE CONTROLS TO ENSURE DEPARTMENT EMPLOYEES ARE COMPLYING WITH STATE AND DEPARTMENT POLICY RELATED TO CELLULAR PHONE USAGE.

Response: We concur. The department reduced the number of cell phones by over 80 phones, and provided current cellular phone users with additional instructions for cell phone usage and protocols. We have also established a process to review cell phone minutes/usage each month to ensure the phones are being used appropriately and effectively.

RECOMMENDATION # 2:

WE RECOMMEND THE DEPARTMENT:

- A. INCLUDE THE FAIR MARKET VALUE OF THE EMPLOYEES' HOUSING IN THEIR TAXABLE GROSS INCOME AND RECORD THE RENTAL INCOME ON THE ACCOUNTING SYSTEM.

**B. RECORD ALL HOURS WORKED BY PRISON RANCH EMPLOYEES ON THE STATE'S HUMAN RESOURCE SYSTEM.**

Response: We concur. The department will change its policy to make the housing a condition of employment and will instruct staff to record the actual hours worked on their timesheets.

**RECOMMENDATION # 3:**

**WE RECOMMEND THE DEPARTMENT ENSURE TIME REPORTING INPUT AGREES TO THE ACTUAL INFORMATION RECORDED ON THE EMPLOYEES' TIMESHEETS.**

Response: We concur. The department identified a more efficient report on SABHRS that will summarize the information entered and allow for easy comparison to timesheet totals. We have established procedures to compare this report to the timesheet prior to approving payroll each pay period.

**RECOMMENDATION # 4:**

**WE RECOMMEND THE DEPARTMENT'S COOK/CHILL FACILITY RATES INCLUDE A DEPRECIATION FACTOR TO ENSURE FEES ARE COMMENSURATE WITH COSTS AS REQUIRED BY STATE LAW.**

Response: We concur. The department will include depreciation in the budget submitted to the Legislature for the 2004/2005 biennium.

**RECOMMENDATION # 5:**

**WE RECOMMEND THE DEPARTMENT:**

- A. ENFORCE CONTRACTING POLICY TO ENSURE CONTRACTS ARE SIGNED IN A TIMELY MANNER.**
- B. ENSURE THE FACILITIES COMPLY WITH DEPARTMENT POLICIES AND PROCEDURES FOR CONTRACTS EXCEEDING \$5,000.**

Response: We concur. The department will update its contracts manual then provide training to employees on that manual. The department will also stagger its contract dates, so that all contracts are not due/completed at fiscal year end. The department will also review its current policy and processes and formalize several processes to ensure contracts are renewed in a timely manner.

RECOMMENDATION # 6:

WE RECOMMEND THE DEPARTMENT COMPLY WITH STATE LAW RELATED TO EXCESS BALANCES IN INMATE TRUST ACCOUNTS.


Response: We concur. The department will introduce legislation into the 2003 Legislative Session, which will modify the law.

RECOMMENDATION # 7:

WE RECOMMEND THE DEPARTMENT WORK WITH THE DEPARTMENT OF ADMINISTRATION TO DETERMINE THE APPROPRIATE FUND FOR THE CANNERY OPERATION AND MOVE THE ACCOUNTING FOR THE CANNERY TO THAT FUND.

Response: We partially concur. The department established the cannery operation in accordance with the intent of the legislature. Since the intent has changed, it would be more appropriate to record the activity in the Internal Service Fund. Since the Ranch and Industries programs are subsidizing the operation and the department has recommended to the Budget Office that the cannery operation be terminated, the department will leave it in the Enterprise Fund until a final decision has been made.

Sincerely,

  
BILL SLAUGHTER  
Director

BS/vm/cj